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INFO AMEMBASSY BEIJING PRIORITY  
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MILLENNIUM CHALLENGE CORP WASHINGTON DC PRIORITY  
NSC WASHINGTON DC PRIORITY  
SECDEF WASHINGTON DC PRIORITY

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STATE FOR EAP/CM; NSC FOR JEFF BADER; MCC FOR FRANCES REID

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SUBJECT: AMBASSADOR AND PRIME MINISTER DISCUSS MCC AND  
AFGHANISTAN

Classified By: Ambassador Mark C. Minton for Reasons 1.4 b and d.

11. (S) Summary. On April 13, Prime Minister Bayar called in the Ambassador for a one-on-one meeting to discuss the MCC rail project and other issues, including deployment of troops to Afghanistan. Bayar indicated with regret that strategic considerations prevent Mongolia from implementing the rail project of the MCC program, but that Mongolia wanted both to work quickly with the United States to identify alternate ways to move forward on MCC as well as to offer a robust, long-term deployment of Mongolian troops to Afghanistan. So as not to be trapped with only a Chinese outlet to the sea for its rail network, Bayar said Mongolia is compelled to work closely with the Russians, who already own 50 percent of the Mongolian railroad, to secure rail access to far eastern Russian ports. Bayar said Russia's willingness to help Mongolia develop its rail network came up in his recent discussions with Russian Prime Minister Putin in Moscow. Nonetheless, Bayar stated he has a strong desire to maintain a close partnership with the United States, on the one hand by working urgently with the USG to examine alternate options for MCC in advance of FM Batbold's meeting with Secretary Clinton on June 9, and on the other by offering an expanded, long-term commitment to operations in Afghanistan. End Summary.

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Bayar: Russia "Not Comfortable" with MCC Rail Audit  
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12. (S) Bayar indicated that, despite the US\$185 million budgeted for the MCC rail project, Mongolia is compelled to take a Russian offer to assist with the financial crisis by offering loans to commercial banks, agricultural assistance in the form of increased imports of Mongolian beef, approximately US\$150 million in budgetary assistance to the Mongolian railroad (UBTZ) and a program of long-term rail infrastructure development. Bayar said that he learned in meetings last month with Russian Premier Putin and other ministers that Russia is "not comfortable" with the MCC rail project. PM Bayar said Mongolia is compelled to take either the MCC offer or the Russian package. Bayar said they must select the Russian offer because Mongolia cannot be beholden to China as the exclusive route for its exports, and Russia is offering a way out via rail to its far eastern ports.

13. (S) Bayar told the Ambassador he will meet with Chinese Premier Wen Jiabao in Beijing this week, and that their talks will cover transportation issues. Specifically, Bayar said China will ask that Mongolia grant control of the massive Tavan Tolgoi coal deposit to the Chinese state-owned Shenhua company in return for an agreement to allow the shipment from Mongolia of minerals (presumably coal, copper, gold and others) to Chinese seaports for export beyond China. Bayar further explained that Mongolia will not be able to accept

this offer and therefore must guard against closing off its only two options for access to Pacific ports via rail. As such, Bayar said Mongolia is compelled to take the Russian offer for financial assistance that includes long-term rail development and thereby forego the MCC rail project.

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Highlighting Military Cooperation in Afghanistan  
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¶4. (S) Bayar outlined to the Ambassador a proposal he had discussed with President Enkhbayar, Defense Minister Bold, and Chief of Staff of the Mongolian Armed Forces Lieutenant General Togoo, which he said he will submit to the Cabinet for approval upon his return from China. This proposal will make 200 to 300 peacekeepers available on a long-term basis for one- or two-year rotations on missions to Afghanistan. The site security mission would include 100 to 120 troops at a German base, 30 troops with the Belgians and 10 troops with the Luxembourgers at the airport, and would still have room for 120 peacekeepers to deploy with U.S. forces in Afghanistan. Bayar stated that during Foreign Minister Batbold's trip to Washington in June, Batbold will present this proposal as a Cabinet-approved package to Secretary Clinton and, if possible, to Defense Secretary Gates. Bayar intends this as a heavy symbolic demonstration of Mongolia's desire to continue to work with the U.S. on matters of great importance.

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Next Steps on MCC  
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¶5. (S) Bayar said he has requested an urgent consultation of key GOM ministers to examine readjusting the MCC compact. He also said he has directed MCA Mongolia Director Bayarbaatar to draft proposals for alternate projects for the MCC rail funds by the end of this week. Furthermore, Bayar said he will instruct Foreign Minister Batbold to send a letter to the USG on or before April 20 to request consultations on projects to replace the rail project. The Ambassador replied that he expects the MCC will send a team to come to Mongolia after the letter is received to discuss possible adjustments. Bayar understood that any substitute MCC projects must be able to be approved with a minimum of bureaucracy and ideally with much of the due diligence already completed. The Ambassador noted that he could not guarantee that all of the rail project funds would stay in Mongolia even if both sides agree to alternate MCC project options.

MINTON